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Opening Statement

Chairman Michael G. Oxley
Committee on Financial Services

**“The Ratings Game: Improving Transparency and Competition Among the
Credit Rating Agencies**

September 14, 2004

Thank you, Chairman Baker, for holding this important hearing this morning. We had a very illuminating hearing on these issues last year and I look forward to this follow-up examination.

Over the past few years, I am proud to note that this Committee has done its part in helping to restore investor confidence in a number of areas, including financial reporting, securities analysis, and mutual funds. So, I welcome the Subcommittee’s attention to the role and function of credit rating agencies.

We are all familiar with the vital role credit rating agencies play in our capital markets system.

However, the past few years have not been good ones for the rating industry, or for consumers of such research. The major firms have not remained unscathed during this post-Enron period of corporate re-examination.

The major rating agencies failed to identify pending disasters at Enron, WorldCom, and elsewhere. Indeed, they did not downgrade the debt of these companies until shortly before the companies declared bankruptcy.

Aside from lackluster performance, I am troubled by the conflicts of interest plaguing the major rating agencies. Now, they are offering additional services including consulting and hypothetical rating assessments that could further compromise their independence.

Officials from the Northern Trust Corporation have stated that the major rating agencies have requested payment for unsolicited ratings and strong-armed the company to pay the fees in return for a good rating. Northern Trust is not the only company to register complaint about these practices.

As a free-market conservative, I have some concerns regarding the SEC’s oversight of credit rating agencies. There are government-created barriers to entry in this industry which unnecessarily stifle competition. There are only four firms that have received the SEC stamp of approval — in reality, the two major firms have the vast majority of market share.

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The SEC issued a concept release in June of 2003, which prompted numerous thoughtful responses.

I would like to see more competition, more transparency, greater disclosure about the underlying assumptions that influence rating decisions, better recordkeeping, and improved oversight of approved rating agencies.

I look forward to hearing from our distinguished panel.

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